

MUHLENBERG COUNTY SCHOOL DISTRICT

**REPORT ON AUDIT OF BASIC
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2007

MUHLENBERG COUNTY SCHOOL DISTRICT
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ALEXANDER & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- SERVING OUR CLIENTS SINCE 1924 -

2707 BRECKENRIDGE STREET, SUITE 1
OWENSBORO, KENTUCKY 42303
TELEPHONE (270) 684-3237
FAX (270) 684-3200
E-MAIL: ACO@ACOCPA.NET

ROBERT E. NATION, CPA
LARRY E. O'BRYAN, CPA
J.L. BYRNE, CPA
DONALD W. HAAS, CPA
W.A. (TONY) BYRNE, CPA
JOSEPH B. KELLER, JR., CPA
W. ANNETTE POGUE, CPA
JERRY L. KELLER, CPA
JENNIFER L. ESTES, CPA
DONNA K. RISLEY, CPA
JANE B. KAMUF, CPA

INDEPENDENT AUDITORS' REPORT

Kentucky State Committee For School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements* and *Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 6 and, 36 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor and agency fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic purpose financial statements of the District. The combining nonmajor and agency fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The accompanying supplemental information as listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alexander & Company, PSC

Owensboro, Kentucky
August 16, 2007

**MUHLENBERG COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

As management of the Muhlenberg County Board of Education (MCBE) School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$14,413,540 as compared to \$9,104,435 for FY 2006. This increase over the prior year was primarily due to construction expenses for the new South Elementary school in the previous year.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in economies due to changed management strategies.
- Following the completion of the district long-range plan for facilities, there has been a continued focus on investing in plant management with the age and size of our facilities reflective of this need. The new Greenville and South Elementary schools along with the new gym at Longest reflect the Board's commitment to our student needs. Bids were opened on March 8, 2007 for the new gym/renovation project for Central City Elementary. Estimates cost on this project is \$3.8 million with \$1.2 million of that coming from the general fund.
- The board completed the major construction projects for the new Greenville (phase II) and South Elementary Schools. The new South Elementary school opened in January 2006. The Longest gym/renovation project began in FY 2005 at a projected cost of \$1.8 million and opened in August 2005. The Longest project was funded from the general fund. As noted above, the Central City project began in April 2007.
- Interest income had an increase for the year generating \$154,127 above the FY2006 amount of \$565,579. This increase is attributable to the unspent construction funds and the increase in interest rates during FY 2007.
- During fiscal 2007, the district felt little impact of the economy other than the increase in interest income. We anticipate flat to slight revenue increase in fiscal 2008.
- The district remains committed to increasing starting teacher salaries. The Board approved a 2% salary increase in June of 2006 for fiscal year 2007. The budget impact of this 2% was approximately \$600,000 increase in payroll. The majority of this was paid from the projected increase in state SEEK funds.
- The General Fund had \$39,883,841 in revenue, which primarily consisted of the state program (SEEK), property and motor vehicle taxes. Excluding inter-fund transfers, there was \$37,097,763 in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. There were \$2 million of bonds issued during FY 2007 for the Central City Elementary project and a \$4.015 million refunding of FY 2000 bonds.

CAPITAL CONSTRUCTION

The following projects represent capital construction items that were completed during FY 2007:

	<u>Total Cost</u>
• North and South High Athletic Project	\$717,310
• South Elementary	141,284
• Greenville Elementary (Phase II)	45,526

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$41,159,794 as of June 30, 2007, an increase of \$3,837,351 from June 30, 2006.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2007 and 2006

The following is a summary of the District's net assets as compared to the prior year:

	2007	2006
Current Assets	\$ 18,437,479	\$ 14,160,583
Noncurrent Assets	<u>57,622,438</u>	<u>56,720,275</u>
Total Assets	<u>\$ 76,059,917</u>	<u>\$ 70,880,858</u>
Current Liabilities	\$ 3,624,937	\$ 3,432,508
Noncurrent Liabilities	<u>30,080,316</u>	<u>28,971,169</u>
Total Liabilities	<u>\$ 33,705,253</u>	<u>\$ 32,403,677</u>
Net Assets		
Investment in capital assets (net of debt)	\$ 26,699,438	\$ 26,600,275
Restricted	3,154,899	119,296
Unreserved Fund Balance	<u>12,500,327</u>	<u>11,757,610</u>
Total Net Assets	<u>\$ 42,354,664</u>	<u>\$ 38,477,181</u>

Comments on Budget Comparisons

- The District's general fund revenues for the fiscal year ended June 30, 2007, net of interfund transfers and on-behalf payments, were \$33,770,402 representing an increase of \$952,133 from the prior year.
- General fund budget, net of on-behalf payments, compared to actual revenue varied from line item to line item with the ending actual balance being \$131,023 more than budgeted, due to timing or construction expenses.
- General fund budget expenditures, net of on-behalf payments, to actual varied among line items as well. Expenditures came in over budget by \$432,773. This difference is primarily due to transfers for construction.

The following table presents a summary of revenue and expense for governmental funds only for the fiscal years ended June 30, 2007 and 2006.

	2007	2006
Revenues:		
Local revenue sources	\$ 12,832,517	\$ 12,330,593
State revenue sources	30,251,289	29,492,643
Federal Revenue	3,295,826	2,751,260
Intermediate Sources	61,906	54,087
Investments	719,706	565,579
Other Sources	112,058	1,176
Total revenues	<u>47,273,302</u>	<u>45,195,338</u>
Expenses:		
Instruction	28,413,302	26,529,739
Student Support Services	1,235,199	1,189,510
Instructional Support	1,192,987	1,132,652
District Administration	967,952	1,027,468
School Administration	1,569,734	1,509,574
Business Support	544,435	673,956
Plant Operations	4,301,450	4,380,268
Student Transportation	3,467,612	3,163,798
Food Service Operation	56,783	78,885
Community Support	589,655	645,945
Facilities Acquisition	1,486,061	5,593,486
Other	1,763,342	1,727,810
Total expenses	<u>45,588,512</u>	<u>47,953,091</u>
Excess (deficit) of revenues over expenditures	<u>\$ 1,684,790</u>	<u>\$ (2,757,753)*</u>

* The board authorized expenditures of prior year reserve to address renovation and construction needs.

General Fund Revenue

Approximately 63.9% and 65.3% of revenue was derived from state funding with local sources making up 27.1% and 27.3%, respectively, of total revenue.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2007-2008 with \$3,593,255 (general fund) in contingency (7.9%). The beginning cash balance for the beginning of the fiscal year was \$14.4 million. Significant Board action that impacts the finances included a \$3,000 pay raise for all certified employees and a 5% increase for classified employees effective July 1, 2007.

Questions regarding this report should be directed to the Financial Officer, Jeff Travis at (270) 338-2871 or by mail to 510 West Main Street, Powderly, KY 42367.

MUHLENBURG COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 12,951,129	\$ 742,593	\$ 13,693,722
Investments	2,812,975	-	2,812,975
Accounts receivable			
Taxes - current	66,531	-	66,531
Taxes - delinquent	7,451	-	7,451
Other	148,596	-	148,596
Intergovernmental - State	138,609	-	138,609
Intergovernmental - Federal	491,656	21,351	513,007
Due from other funds	-	-	-
Inventory	171,227	71,355	242,582
Prepaid expenses	522,998	-	522,998
Prepaid interest	283,760	-	283,760
Interest receivable	7,248	-	7,248
Total current assets	17,602,180	835,299	18,437,479
Noncurrent Assets			
Bond issuance costs	544,697	-	544,697
Capital assets	78,611,355	1,180,144	79,791,499
Less: Accumulated depreciation	(21,897,649)	(816,109)	(22,713,758)
Total noncurrent assets	57,258,403	364,035	57,622,438
Total assets	\$ 74,860,583	\$ 1,199,334	\$ 76,059,917
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 675,267	\$ 4,464	\$ 679,731
Retained percentage contracts	128,582	-	128,582
Accrued payroll and withholding obligations	-	-	-
Due to other funds	-	-	-
Deferred revenues	685,047	-	685,047
Current portion of bond obligations	1,648,000	-	1,648,000
Current portion of capital lease obligations	-	-	-
Current portion of accrued sick leave	100,000	-	100,000
Interest payable	383,577	-	383,577
Total current liabilities	3,620,473	4,464	3,624,937
Noncurrent Liabilities			
Noncurrent portion of bond obligations	29,275,000	-	29,275,000
Noncurrent portion of capital lease obligations	-	-	-
Noncurrent portion of accrued sick leave	805,316	-	805,316
Total noncurrent liabilities	30,080,316	-	30,080,316
Total liabilities	\$ 33,700,789	\$ 4,464	\$ 33,705,253
NET ASSETS			
Invested in capital assets, net of related debt	\$ 26,335,403	\$ 364,035	\$ 26,699,438
Restricted for:			
Libraries	522,152	-	522,152
Capital projects	2,632,747	-	2,632,747
Unrestricted	11,669,492	830,835	12,500,327
Total net assets	\$ 41,159,794	\$ 1,194,870	\$ 42,354,664

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

FUNCTIONS/PROGRAMS

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities						
Instruction	\$ 28,875,449	\$ -	\$ -	\$ (22,086,099)	-	\$ (22,086,099)
Support services:						
Student	1,235,199	14,584	-	(1,220,615)	-	(1,220,615)
Instruction staff	6,749	-	-	(6,749)	-	(6,749)
District administrative	967,952	-	-	(967,952)	-	(967,952)
School administrative	1,569,734	-	-	(1,569,734)	-	(1,569,734)
Business	544,435	-	-	(544,435)	-	(544,435)
Plant operation and maintenance	4,301,450	2,225	-	(4,299,225)	-	(4,299,225)
Student transportation	2,809,168	91,771	-	(2,717,397)	-	(2,717,397)
Central office	-	-	-	-	-	-
Food service operation	56,783	-	-	(56,783)	-	(56,783)
Community service activities	589,655	-	-	(589,655)	-	(589,655)
Facilities acquisition and construction	(101,714)	-	-	101,714	-	101,714
Other	1,252,484	-	-	(1,252,484)	-	(1,252,484)
Depreciation	2,081,018	-	-	(2,081,018)	-	(2,081,018)
Total governmental activities	44,188,362	108,580	-	(37,290,432)	-	(37,290,432)
Business-type Activities						
Food service	2,948,828	893,897	1,753,127	-	(17,742)	(17,742)
Day care	285,013	-	-	-	-	-
Adult education	82,201	9,060	-	-	313	313
Total business-type activities	3,316,042	1,187,970	284,062	-	(17,429)	(17,429)
Total school district	\$ 47,504,404	\$ 1,296,550	\$ 284,062	\$ (37,290,432)	\$ (17,429)	\$ (37,307,861)
General Revenues						
Property taxes	\$ 4,852,276	\$ -	\$ -	\$ 4,852,276	-	\$ 4,852,276
Motor vehicle taxes	890,198	-	-	890,198	-	890,198
Unmined mineral tax	124,382	-	-	124,382	-	124,382
Other taxes	23,157	-	-	23,157	-	23,157
Revenue in lieu of taxes	6,613,244	-	-	6,613,244	-	6,613,244
Investment earnings and adjustment to market	719,706	-	-	719,706	57,561	777,267
State and formula grants	27,886,457	-	-	27,886,457	-	27,886,457
Bond proceeds	-	-	-	-	-	-
Miscellaneous	(152,867)	-	-	(152,867)	-	(152,867)
Total general revenues	40,956,553			57,561		41,014,114
Change in net assets	3,666,121				40,132	3,706,253
Net assets - beginning	37,322,443				1,154,738	38,477,181
Prior period adjustment	171,230				-	171,230
Net assets - ending	\$ 41,159,794			\$ 1,194,870		\$ 42,354,664

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2007

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 9,740,276	\$ 157,490	\$ 3,042,481	\$ 10,882	\$ 12,951,129
Investments	2,812,975	-	-	-	2,812,975
Accounts receivable					
Taxes - current	59,140	-	-	-	59,140
Taxes - delinquent	7,451	-	-	-	7,451
Other	155,987	-	-	-	155,987
Intergovernmental - State	-	138,609	-	-	138,609
Intergovernmental - Federal	-	491,656	-	-	491,656
Prepaid expense	522,998	-	-	-	522,998
Inventories	171,227	-	-	-	171,227
Due from other funds	-	-	-	-	-
Interest receivable	-	-	7,248	-	7,248
Total assets	\$ 13,470,054	\$ 787,755	\$ 3,049,729	\$ 10,882	\$ 17,318,420
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 272,253	\$ 102,708	\$ 300,306	\$ -	\$ 675,267
Retained percentage contracts	1,024	-	127,558	-	128,582
Accrued payroll and related expenses	-	-	-	-	-
Accumulated sick leave - current	100,000	-	-	-	100,000
Due to other funds	-	-	-	-	-
Deferred revenues	-	685,047	-	-	685,047
Obligations under capital lease	-	-	-	-	-
Debt obligations	-	-	-	-	-
Total liabilities	373,277	787,755	427,864	-	1,588,896
Fund Balances					
Retained earnings					
Restricted for inventory/fixd assets	171,227	-	-	-	171,227
Unrestricted	-	-	-	-	-
Fund balances					
Restricted for libraries	522,152	-	-	-	522,152
Restricted for sick leave payable	336,232	-	-	-	336,232
Encumbrances - current year	-	-	-	-	-
Restricted for construction	-	-	2,621,865	10,882	2,632,747
Unreserved	12,067,166	-	-	-	12,067,166
Total fund balances	13,096,777	-	2,621,865	10,882	15,729,524
Total liabilities and fund balances	\$ 13,470,054	\$ 787,755	\$ 3,049,729	\$ 10,882	\$ 17,318,420

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
June 30, 2007

Total fund balances - governmental funds	\$ 15,729,524
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore not reported as assets in governmental funds. The cost of the assets is \$ 78,611,355 and the accumulated depreciation is \$ 21,897,649	56,713,706
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.	-
Certain long-term assets are not reported in the governmental funds because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	-
Bond issuance costs reported as an expenditure in the governmental fund financial statement are capitalized in the government-wide financial statements.	544,697
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(30,923,000)
Accrued interest on the bonds	(383,577)
Deferred interest from refunding	283,760
Long-term portion of accrued sick leave	(805,316)
Total net assets for governmental activities	<u>\$ 41,159,794</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the year ended June 30, 2007

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Property taxes	\$ 4,248,169	\$ -	\$ -	\$ 604,107	\$ 4,852,276
Motor vehicle taxes	890,198	-	-	-	890,198
Unmined minerals	124,381	-	-	-	124,381
Utility taxes	-	-	-	-	-
Other taxes	23,157	-	-	-	23,157
Revenue other local government units	6,613,244	-	-	-	6,613,244
Tuition and fees	-	-	-	-	-
Transportation	91,771	-	-	-	91,771
Earnings on investments	677,051	31,342	11,313	-	719,706
Community service activities	-	-	-	-	-
Other local revenues	237,490	-	-	-	237,490
State sources					
SEEK	20,448,400	-	-	-	20,448,400
Other	6,371,271	1,819,802	259,644	1,352,172	9,802,889
Federal - direct	44,515	82,788	-	-	127,303
Federal - indirect	-	3,168,523	-	-	3,168,523
Intermediate sources	2,136	59,770	-	-	61,906
Other revenues	112,058	-	-	-	112,058
Total revenues	39,883,841	5,162,225	270,957	1,956,279	47,273,302
Expenditures					
Instruction	23,899,410	4,513,892	-	-	28,413,302
Support services					
Student	1,144,385	90,814	-	-	1,235,199
Instruction staff	1,053,149	139,838	-	-	1,192,987
District administration	967,265	687	-	-	967,952
School administration	1,569,734	-	-	-	1,569,734
Business	691,604	(147,169)	-	-	544,435
Plant operation and maintenance	4,301,450	-	-	-	4,301,450
Student transportation	3,317,467	150,145	-	-	3,467,612
Central office	-	-	-	-	-
Food service operation	56,783	-	-	-	56,783
Community service activities	60,989	528,666	-	-	589,655
Facilities acquisition and construction	35,527	-	1,374,294	76,240	1,486,061
Other	-	-	-	1,763,342	1,763,342
Total expenditures	37,097,763	5,276,873	1,374,294	1,839,582	45,588,512
Excess (deficit) of revenues over expenditures	2,786,078	(114,648)	(1,103,337)	116,697	1,684,790
Other Financing Sources (Uses)					
Bond proceeds	-	-	2,000,000	4,015,000	6,015,000
Payment to refunding debt escrow agent	-	-	-	(3,938,760)	(3,938,760)
Operating transfers in	-	114,648	2,308,461	1,763,342	4,186,451
Operating transfers out	(1,709,185)	-	(310,059)	(2,167,207)	(4,186,451)
Total other financing sources (uses)	(1,709,185)	114,648	3,998,402	(327,625)	2,076,240
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	1,076,893	-	2,895,065	(210,928)	3,761,030
Net change in fund balances	1,076,893	-	2,895,065	(210,928)	3,761,030
Prior period adjustment	171,229	-	-	-	171,229
Fund balance, July 1, 2006	11,848,655	-	(273,200)	221,810	11,797,265
Fund balance, June 30, 2007	\$ 13,096,777	\$ -	\$ 2,621,865	\$ 10,882	\$ 15,729,524

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Total net change in fund balances - governmental funds	\$ 3,761,030
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$ 3,331,976) exceeded depreciation (\$ 2,081,018) in the current period.	1,250,958
In the statement of activities, only the gain (loss) on the sale or disposal is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of equipment sold.	(485,605)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	-
The proceeds of debt issuances provide current financial resources to governmental funds. But issuing debt increases long-term liabilities in the statement of net assets.	(6,015,000)
Repayment of bond principal and capital lease payments are an expenditure in the governmental funds, but the payments reduce long-term liabilities in the statement net assets. This is the amount of the payments.	4,940,642
On-behalf payments of bond principal by the SFCC are revenues in the governmental funds, but the payments reduce long-term liabilities in the statement net assets. This is the amount of the payments.	555,118
In the statement of activities, certain operating expenses - compensated absences (sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This is the amount that used exceeded sick leave earned.	(462,147)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds, leases and contracts payable.	20,644
Bond issuance costs reported as an expenditure in the governmental fund financial statement are capitalized in the government-wide financial statements.	100,481
Change in net assets of governmental activities	<u>\$ 3,666,121</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

ASSETS	Food Service Fund	Community Education Fund	Other Enterprise Funds	Total
Current Assets				
Cash and cash equivalents	\$ 739,423	\$ 3,170	\$ -	\$ 742,593
Accounts receivable - other	-	-	-	-
Accounts receivable - Federal	21,351	-	-	21,351
Inventories	71,355	-	-	71,355
Total current assets	<u>832,129</u>	<u>3,170</u>	<u>-</u>	<u>835,299</u>
Noncurrent Assets				
Capital assets	1,180,144	-	-	1,180,144
Less: Accumulated depreciation	(816,109)	-	-	(816,109)
Total noncurrent assets	<u>364,035</u>	<u>-</u>	<u>-</u>	<u>364,035</u>
Total assets	<u>\$ 1,196,164</u>	<u>\$ 3,170</u>	<u>\$ -</u>	<u>\$ 1,199,334</u>
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 4,464	\$ -	\$ -	\$ 4,464
Accrued payroll and withholding obligations	-	-	-	-
Total current liabilities	<u>4,464</u>	<u>-</u>	<u>-</u>	<u>4,464</u>
Total liabilities	<u>4,464</u>	<u>-</u>	<u>-</u>	<u>4,464</u>
NET ASSETS				
Invested in capital assets, net of related debt	364,035	-	-	364,035
Unrestricted	827,665	3,170	-	830,835
Total net assets	<u>\$ 1,191,700</u>	<u>\$ 3,170</u>	<u>\$ -</u>	<u>\$ 1,194,870</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the year ended June 30, 2007

	Food Service Fund	Community Education Fund	Day Care Operations Fund	Total
Operating Revenues				
Food service sales	\$ 893,897	\$ -	\$ -	\$ 893,897
Other operating revenues	-	9,060	285,013	294,073
Total operating revenues	<u>893,897</u>	<u>9,060</u>	<u>285,013</u>	<u>1,187,970</u>
Operating Expenses				
Salaries and wages	1,380,869	75,623	284,693	1,741,185
Professional and contract services	24,859	3,663	-	28,522
Supplies and materials	1,469,086	1,625	-	1,470,711
Depreciation	59,160	-	-	59,160
Other operating expenses	14,854	1,290	320	16,464
Total operating expenses	<u>2,948,828</u>	<u>82,201</u>	<u>285,013</u>	<u>3,316,042</u>
Operating income (loss)	<u>(2,054,931)</u>	<u>(73,141)</u>	<u>-</u>	<u>(2,128,072)</u>
Nonoperating revenues (expenses)				
Federal grants	1,405,145	-	-	1,405,145
State grants	29,680	-	-	29,680
Other state funding	318,302	73,454	-	391,756
Donated commodities	284,062	-	-	284,062
Interest income	57,561	-	-	57,561
Total nonoperating revenues (expenses)	<u>2,094,750</u>	<u>73,454</u>	<u>-</u>	<u>2,168,204</u>
Net income (loss)	<u>39,819</u>	<u>313</u>	<u>-</u>	<u>40,132</u>
Total net assets, July 1, 2006	<u>1,151,881</u>	<u>2,857</u>	<u>-</u>	<u>1,154,738</u>
Total net assets, June 30, 2007	<u>\$ 1,191,700</u>	<u>\$ 3,170</u>	<u>\$ -</u>	<u>\$ 1,194,870</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2007

	Food Service Fund	Community Education Fund	Day Care Operations Fund	Total
Cash Flows from Operating Activities				
Cash received from lunchroom sales	\$ 893,897	\$ -	\$ -	\$ 893,897
Cash received from government grants	1,536,312	73,454	-	1,609,766
Cash received from other activities	319,275	9,060	285,013	613,348
Cash payments to employees for services	(1,380,869)	(75,623)	(284,693)	(1,741,185)
Less accrued liability	-	-	-	-
Cash payments to suppliers for goods and services	(1,232,346)	(5,303)	-	(1,237,649)
Cash payments for other operating activities	(6,687)	(1,290)	(320)	(8,297)
Net cash from operating activities	129,582	298	-	129,880
Cash Flows from Capital Financing Activities				
Capital contributions	-	-	-	-
Acquisition of capital assets	(103,656)	-	-	(103,656)
Net cash from capital financing activities	(103,656)	-	-	(103,656)
Cash Flows from Noncapital Financing Activities				
Nonoperating grants received	-	-	-	-
Net cash from noncapital financing activities	-	-	-	-
Cash Flows from Investing Activities				
Interest on investments	57,561	-	-	57,561
Net cash flows from investing activities	57,561	-	-	57,561
Net increase in cash and cash equivalents	83,487	298	-	83,785
Cash and cash equivalents - beginning	655,936	2,872	-	658,808
Cash and cash equivalents - ending	\$ 739,423	\$ 3,170	\$ -	\$ 742,593
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 39,819	\$ 313	\$ -	\$ 40,132
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Depreciation	59,160	-	-	59,160
Interest	(57,561)	-	-	(57,561)
Loss on disposal of assets	8,167	-	-	8,167
Changes in assets and liabilities:				
Receivables	102,460	-	-	102,460
Inventory	(19,702)	-	-	(19,702)
Accounts payable	(2,761)	(15)	-	(2,776)
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Due to other funds	-	-	-	-
Net Cash Provided by Operating Activities	\$ 129,582	\$ 298	\$ -	\$ 129,880

Noncash noncapital financing activities:

During the year the district received \$ 284,062 of food commodities from the U.S. Department of Agriculture.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
 June 30, 2007

ASSETS	<u>Trust Fund</u>	<u>Agency Fund</u>	<u>Other Fiduciary Funds</u>	<u>Total</u>
Current Assets				
Cash and cash equivalents	\$ 83,835	\$ 635,983	\$ -	\$ 719,818
Accounts receivable	-	5,368	-	5,368
Total current assets	<u>83,835</u>	<u>641,351</u>	<u>-</u>	<u>725,186</u>
Noncurrent Assets				
Capital assets	-	-	-	-
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 83,835</u>	<u>\$ 641,351</u>	<u>\$ -</u>	<u>\$ 725,186</u>
LIABILITIES				
Current Liabilities				
Accounts Payable	\$ -	\$ 56,403	\$ -	\$ 56,403
Due to student groups	-	584,948	-	584,948
Total current liabilities	<u>-</u>	<u>641,351</u>	<u>-</u>	<u>641,351</u>
Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>641,351</u>	<u>-</u>	<u>641,351</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	-	-	-
Unrestricted	<u>83,835</u>	<u>-</u>	<u>-</u>	<u>83,835</u>
Total net assets	<u>\$ 83,835</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,835</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the year ended June 30, 2007

	Trust Fund	Other Fiduciary Funds	Total
Additions			
Net interest and investment gains (losses)	\$ 2,247	\$ -	\$ 2,247
Private donations	-	-	-
Other additions	1,389,222	-	1,389,222
Total additions	<u>1,391,469</u>	<u>-</u>	<u>1,391,469</u>
Deductions			
Scholarships awarded	-	-	-
Other deductions	1,383,974	-	1,383,974
Total deductions	<u>1,383,974</u>	<u>-</u>	<u>1,383,974</u>
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	7,495	-	7,495
Total net assets, July 1, 2006	<u>76,340</u>	<u>-</u>	<u>76,340</u>
Total net assets, June 30, 2007	<u>\$ 83,835</u>	<u>\$ -</u>	<u>\$ 83,835</u>

The accompanying notes are an integral part of the financial statements.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Muhlenberg County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Muhlenberg County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Muhlenberg County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Muhlenberg County School District Finance Corporation - On July 22, 1988, the Muhlenberg County, Kentucky, Board of Education resolved to authorize the establishment of the Muhlenberg County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Muhlenberg County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the District). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds. Separate statements for each fund category - *governmental* and *proprietary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District has the following funds:

Governmental Fund Types

These are the funds through which most governmental functions typically are financed. These funds included in this category are as follows:

General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Types (continued)

The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Types

These funds account for operations that are organized to be self-supporting through user charges. The funds included in this category are the Enterprise Funds and Internal Service Funds.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Community Education Fund is used to account for educational classes offered to the general public.

The Day Care Operations Fund is used to account for after-school and summer day care services offered to the general public.

The District applies all Governmental Accounting Standards Board ("GASB") pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Internal Service Funds are established to account for the operation of district services that provide goods or services to other district functions, or to other districts, or to other governmental units, on a cost-reimbursable basis. This fund may also be used to account for funds passed through the district in the case of the district acting as a fiscal agent for a particular group.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Type (includes agency and trust funds)

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds).

The Agency Fund consists of Activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Accounting Procedures for Kentucky School Activity Funds*.

The Trust Fund consists of Revolving funds of the County Employees Retirement System Revolving Fund and the Kentucky KARE Revolving Fund.

The County Employees Retirement System Revolving Fund is a fund used to meet retirement obligations.

The Kentucky KARE Revolving Fund is a fund used to meet monthly insurance premiums. The balance at June 30, 2007, is to pay premiums for July and August, 2007. The balance has accumulated as a result of withholdings by the District over a ten-month period to pay premiums over twelve months.

Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Investments

KRS 66.480 authorizes the District to invest in obligations of the United States, U.S. government obligations and contracts, obligations of U.S. government corporations, certificates of deposit, uncollateralized CD's, banker's acceptances, commercial paper, bonds of Kentucky, securities issued by states or local governments or shares of mutual funds

The District adopted GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This standard requires investments to be accounted for at fair value, which is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Budgetary Process

The District is required by state law to adopt annual budgets for the general fund, special revenue funds, debt service fund and capital projects fund. Each budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles (GAAP).

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to May 15 of the preceding fiscal year, the district prepares a tentative working budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Education is then called for the purpose of adopting the tentative working budget by May 15.
3. Prior to September 15, the working budget is legally enacted through passage of a resolution by the Board of Education.
4. The budget must be submitted to the Kentucky Board of Education by September 15 for approval.

Once the budget is approved, it can be amended at the Function and Fund level. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended. Individual amendments were not material in relation to original appropriations. All budget appropriations lapse at year-end.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

Inventory in the General Fund consists of transportation supplies. All other supplies and materials in the General Fund are charged to expenditures when purchased. Inventories are valued at cost using the first-in, first-out method.

The Food Service Fund's inventories consist of food and supplies valued at cost and government commodities, whose value is determined by the U.S. Department of Agriculture.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Amortization expense for capital leases are included with depreciation expense. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

The Districts ad valorem property tax is levied each November 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The assessed value of the certified roll, upon which the levy for the 2007 fiscal year was based, was \$ 1,208,214,362.

The tax rates assessed for the year ended June 30, 2007 to finance general fund operations and the FSPK Fund were \$.436 and \$.061 per \$ 100 valuation, respectively, for a total of \$.497 per \$ 100 valuation.

Taxes are due on November 1 and become delinquent by January 1 following the November 1 levy date. Current tax collections for the year ended June 30, 2007 were 94.04% of the tax levy.

All property taxes collected are recorded as revenues in the general fund except for the portion (6.1¢) that must be recorded in the FSPK Fund. The 6.1¢ is the amount necessary to produce the required 5¢ levy.

Deferred Revenues

Revenues from federal, state and local grants are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as deferred revenues until earned in the governmental funds financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

The District is required to execute a bond of depository. The depository bank deposits, for safekeeping and trust with the District's third party agent, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. That amount is \$ 28,000,000 for the two year period ended June 30, 2007.

Under the depository contract, the District, at its own discretion, invests funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's investment policy requires the District's finance officer to monitor the safety of investments. Also, the District is required by state statute that bank deposits in excess of FDIC insurance must be collateralized. The District's bank balance was not exposed to custodial credit risk as of June 30, 2007.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE C - CASH AND CASH EQUIVALENTS (continued)

At year end, the carrying amount of the District's cash and cash equivalents was \$ 16,137,286. Of the total cash balance, \$ 323,075 was covered by Federal depositary insurance, \$ 699,674 was collateralized by the Kentucky School District Liquid Asset Fund Plus, held by the agent in the District's name, with the remainder covered by collateral held by the pledging bank's trust department in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2007 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Old National Bank – checking	\$ 5,374,544	\$ 3,669,215
Old National Bank – certificate of deposit	8,458,314	8,458,314
Old National Bank – money market	950,355	950,355
Kentucky School District Liquid Asset Fund Plus	699,674	699,674
School Activity Funds – checking	581,004	562,587
School Activity Funds – certificates of deposit	73,395	73,395
	<u>\$ 16,137,286</u>	<u>\$ 14,413,540</u>

Breakdown per financial statements:

Governmental funds	\$ 12,951,129
Proprietary funds	742,593
Private purpose trust funds	83,835
Agency funds	<u>635,983</u>
	<u>\$ 14,413,540</u>

Due to the nature of the funds and limitations imposed by bond issue requirements, construction projects, and federal financial assistance programs, cash within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Bond and Interest Redemption Fund, School Construction Fund, Special Revenue (Grant) Funds and the Technology Fund.

General fund restricted cash as of June 30, 2007 consists of \$ 14,776 restricted for the betterment of school libraries.

NOTE D - INVESTMENTS

The former Greenville Independent School System, since merged with the District, was bequeathed 1/8 of an estate in 1970. In addition, the School System was bequeathed 1/4 of the principal of two trust funds. In accordance with the bequest, the income of the assets are restricted for use for the betterment of school libraries.

Investments are included in the balance sheet at fair market value, under the caption Investments. The types of investments categorized below represent all types of investments utilized by the District during the period as of June 30, 2007:

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE D - INVESTMENTS (continued)

<u>Fund Type</u>	<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (months)</u>	<u>Rating</u>
Governmental	Common Stock	\$ 507,376	N/A	N/R
Governmental	Federal Home Loan Bank	1,096,454	12.9	AAA
Governmental	Federal National Mortgage Association Pool	1,209,145	124.7	AAA
Total		\$ <u>2,812,975</u>		

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value and investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and shares in mutual funds. The District's investment policy only allows investment choices that are in compliance with the state statutes. All investments held by the District are insured or collateralized with securities held by the District or by its agent in the District's name.

Concentration of Credit Risk

The District's investment policy places no limit on the amount the District may invest in any one issuer. However, the amount of money the District invests at any time in uncollateralized certificates of deposit issued by any bank, bankers acceptances for banks, commercial paper or securities issued by a state or local government or any agency thereof shall not exceed individually or in total 20% of total investments. More than 5 percent of the District's investments are in Federal Home Loan Bank, Federal National Mortgage Association Pool and common stock. These investments are 39%, 43% and 18%, respectively, of the District's total investments.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities:				
Capital assets not depreciated:				
Land	\$ 2,510,490	\$ -	\$ -	\$ 2,510,490
Construction in progress	267,521	1,389,041	957,119	699,443
Total capital assets not depreciated	<u>2,778,011</u>	<u>1,389,041</u>	<u>957,119</u>	<u>3,209,933</u>
Capital assets depreciated:				
Land improvements	1,071,500	752,048	70,000	1,753,548
Buildings	63,473,853	303,324	1,067,300	62,709,877
Equipment	1,956,583	101,797	115,722	1,942,658
Technology equipment	4,067,144	1,084,441	1,356,951	3,794,634
Vehicles	4,670,253	658,444	127,992	5,200,705
Total capital assets depreciated	<u>75,239,333</u>	<u>2,900,054</u>	<u>2,737,965</u>	<u>75,401,422</u>
Less accumulated depreciation:				
Land improvements	659,855	67,077	44,792	682,140
Buildings	13,715,813	1,252,746	683,995	14,284,564
Equipment	1,239,346	171,827	103,161	1,308,012
Technology equipment	3,271,542	296,395	1,302,161	2,265,776
Vehicles	3,182,434	292,973	118,250	3,357,157
Total accumulated depreciation	<u>22,068,990</u>	<u>2,081,018</u>	<u>2,252,359</u>	<u>21,897,649</u>
Total capital assets depreciated, net	<u>53,170,343</u>	<u>819,036</u>	<u>485,606</u>	<u>53,503,773</u>
Total capital assets, net	<u>\$ 55,948,354</u>	<u>\$ 2,208,077</u>	<u>\$ 1,442,725</u>	<u>\$ 56,713,706</u>
Business-type activities:				
Capital assets depreciated:				
Buildings	\$ 130,186	\$ -	\$ -	\$ 130,186
Food service equipment	1,181,237	103,656	237,700	1,047,193
Equipment	-	-	-	-
Furniture and fixtures	-	-	-	-
Technology equipment	2,765	-	-	2,765
Total capital assets depreciated	<u>1,314,188</u>	<u>103,656</u>	<u>237,700</u>	<u>1,180,144</u>
Less accumulated depreciation:				
Buildings	87,436	4,135	-	91,571
Food service equipment	898,196	54,472	229,533	723,135
Equipment	-	-	-	-
Furniture and fixtures	-	-	-	-
Technology equipment	850	553	-	1,403
Total accumulated depreciation	<u>986,482</u>	<u>59,160</u>	<u>229,533</u>	<u>816,109</u>
Total capital assets depreciated, net	<u>327,706</u>	<u>44,496</u>	<u>8,167</u>	<u>364,035</u>
Total capital assets, net	<u>\$ 327,706</u>	<u>\$ 44,496</u>	<u>\$ 8,167</u>	<u>\$ 364,035</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated."

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying basic financial statements as bonds payable represents the District's future obligations to make payments relating to the bonds issued by the Kentucky School Facility Construction Commission and the Kentucky Interlocal School Transportation Association (KISTA).

The original amount of each issue, the issue dates, and interest rates are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Rate</u>	<u>Matures</u>
Issue of 1993 (SFCC)	\$ 610,000	2.90% - 5.50%	May 1, 2013
KISTA - 1997 Series (SFCC)	700,000	4.10% - 5.50%	June 1, 2017
KISTA - July 1998 Remarketing Issue	1,075,000	4.30% - 4.50%	June 1, 2008
KISTA - July 1998 Remarketing Issue	500,000	4.30% - 4.50%	June 1, 2008
School Building Revenue Bonds Series 2000	5,270,000	4.75% - 5.40%	May 1, 2020
School Building Refunding Revenue Bonds Series 2002	7,830,000	1.70% - 4.50%	August 1, 2013
School Building Revenue Bonds Series 2003 (SFCC)	7,640,000	2.00% - 4.50%	September 1, 2023
School Building Revenue Bonds Series 2004 (SFCC)	12,310,000	2.50%-4.63%	April 1, 2024
School Building Refunding Revenue Bonds Series 2007	4,015,000	3.40%-3.90%	March 1, 2020
School Building Revenue Bonds Series 2007	2,000,000	3.63%-4.00%	May 1, 2007

The District through the General Fund (including the Facility Support Program in Kentucky (FSPK) Fund and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky School Facility Construction Commission and the Kentucky Interlocal School Transportation Association (KISTA) to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has entered into "participation agreements" with the Kentucky School Facility Construction Commission (SFCC). The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. This agreement provides that the commission will remit a stated amount of bond principal and interest payments subject to approval by the Kentucky General Assembly biennially. The District remains obligated for the full amount if approval is not obtained. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

On May 1, 1993, the Muhlenberg County School District Finance Corporation (Corporation) entered into a loan agreement with the SFCC for improvements and renovations of Muhlenberg North and South Middle Schools. The total loan amount is \$610,000 and is to be repaid over 20 years with interest rates varying between 2.9% to 5.50%.

On December 1, 1997 the District entered into a lease agreement with the Kentucky Interlocal School Transportation (KISTA) for the construction of eight classrooms at Central City Elementary School. The total loan amount is \$700,000 and is to be repaid over 20 years with interest rates varying between 4.10% to 5.5%. The entire amount will be repaid by the SFCC.

On July 1, 1998 the District entered into a loan agreement with the Kentucky Interlocal School Transportation Association (KISTA) to provide funding for Energy Improvements at multiple facilities and for HVAC renovations at South Middle School. The total loan amount is \$ 1,575,000 and will be repaid at 4.4% interest over 10 years.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

On March 16, 2000, the Muhlenberg County School District Finance Corporation issued School Building Revenue Bonds, Series of 2000 in the amount of \$ 5,270,000. These bonds were issued to provide the required funds to complete additions and renovations at Muhlenberg North Middle School. The bond is to be repaid over 20 years with interest rates varying between 4.75% to 5.40%. A portion of these bonds, \$3,655,000 were defeased in 2007.

On January 17, 2001, the Muhlenberg County School District Finance Corporation issued Qualified Zone Academy Revenue Bonds, Series of 2001 in the amount of \$ 767,000. These bonds were issued to provide the required funds to complete additions and renovations at Muhlenberg North Middle School. There will be no interest payment on the bonds. Holders are entitled to a credit against taxable income. The Board placed \$387,581 into an escrowed Guaranteed Investment Contract to defease the bonds by its maturity date of January 30, 2014.

On April 1, 2002, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2002 for \$ 7,830,000 with an average interest rate of 4.03% to advance refund term bonds with an average interest rate of 5.84% and a value of \$ 7,370,000. The term bonds mature on August 1, 2013 and are callable on August 1, 2012. The revenue bonds were issued at par and, after paying issuance costs of \$ 143,516, the net proceeds were \$7,686,484. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on August 1, 2002. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$ 407,777, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 316,146.

On August 1, 2003, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2003 for \$7,640,000. These bonds were issued to finance the construction of the new Greenville Elementary School. The bond is to be repaid over 20 years maturing on September 1, 2023 with interest rates varying between 2.00% and 4.50%.

On April 1, 2004, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2004 for \$12,310,000. These bonds were issued to finance the construction of the new South Elementary School and improvements at Longest Elementary School. The bond is to be repaid over 20 years with interest rates varying between 2.5% and 4.65%.

On January 3, 2007, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2007 for \$ 4,015,000 with an average interest rate of 3.739% to advance refund term bonds with an average interest rate of 5.388% and a value of \$ 3,655,000. The term bonds mature on March 1, 2020 and are callable on January 1, 2017. The revenue bonds were issued at par and, after paying issuance costs of \$ 76,240, the net proceeds were \$3,938,760. The net proceeds from the issuance of the revenue bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds are called on March 16, 2020. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$ 243,093, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 196,059.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

On May 1, 2007, the Muhlenberg County School District Finance Corporation issued the Muhlenberg County School District Finance Corporation School Building Revenue Bonds, Series of 2007 for \$2,000,000. These bonds were issued to finance the construction of the new Central City Elementary School gymnasium. The bond is to be repaid over 20 years maturing on May 1, 2027 with interest rates varying between 3.625% and 4.00%.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2007 for debt service (principal and interest) are as follows:

Year	Muhlenberg County School District		School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2007-08	\$ 1,050,905	\$ 730,046	\$ 597,095	\$ 541,547	\$ 2,919,593
2008-09	959,636	690,329	615,364	521,739	2,787,067
2009-10	1,001,076	649,056	640,924	496,179	2,787,235
2010-11	1,041,265	605,015	667,735	469,368	2,783,383
2011-12	1,090,143	558,079	695,857	441,246	2,785,325
2012-13	1,134,165	511,905	723,835	413,268	2,783,173
2013-14	1,168,774	471,399	721,226	384,012	2,745,411
2014-15	1,016,883	428,929	750,117	355,122	2,551,051
2015-16	1,054,219	389,509	780,781	324,458	2,548,967
2016-17	1,095,101	347,822	812,899	292,339	2,548,161
2017-18	1,138,355	303,817	791,645	257,989	2,491,806
2018-19	1,185,521	257,367	824,479	225,109	2,492,476
2019-20	1,235,475	208,041	859,525	190,033	2,493,074
2020-21	857,214	155,674	767,786	153,256	1,933,930
2021-22	897,944	117,150	802,056	118,985	1,936,135
2022-23	912,098	76,399	837,902	83,139	1,909,538
2023-24	941,234	34,796	853,766	45,273	1,875,069
2024-25	67,489	8,195	62,511	7,805	146,000
2025-26	69,989	5,495	65,011	5,305	145,800
2026-27	67,388	2,696	67,612	2,704	140,400
	<u>\$ 17,984,874</u>	<u>\$ 6,551,718</u>	<u>\$ 12,938,126</u>	<u>\$ 5,328,876</u>	<u>\$ 42,803,594</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT (continued)

A summary of Long-term liability activity for the year ended is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
PRIMARY GOVERNMENT					
Governmental activities:					
KISTA	\$ 825,000	\$ —	\$ (212,000)	\$ 613,000	\$ 223,000
Revenue bonds	29,295,000	6,015,000	(5,000,000)	30,310,000	1,425,000
	<u>\$30,120,000</u>	<u>\$ 6,015,000</u>	<u>\$ (5,212,000)</u>	<u>\$30,923,000</u>	<u>\$ 1,648,000</u>

NOTE G - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2007, this amount totaled \$ 905,316 for employees with 5 or more years of experience.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that payment is probable. The liability is based on the District's accumulated benefits as of the balance sheet date.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

NOTE H - RETIREMENT PLANS

Kentucky Teachers' Retirement System (KTRS)

Plan Description: The Muhlenberg County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy: Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE H - RETIREMENT PLANS (continued)

Kentucky Teachers' Retirement System (KTRS) (continued)

The Muhlenberg County School District's total payroll for the year was \$ 28,021,945. The payroll for employees covered under KTRS was \$ 21,230,263. For the year ended June 30, 2007, the Commonwealth contributed \$2,523,976 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the year ending June 30, 2007 were \$ 258,277 which represent those employees covered by federal programs.

Amortized book value of investments as of June 30, 2006 was \$13,161,470,370. Fair market value of investments as of June 30, 2006 was \$13,898,689,351.

Benefits: The pension plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents. All benefits vest after five years of service.

On-behalf Payments: The District records the 13.105% contributions made by the Commonwealth of Kentucky, as required to conform with generally accepted accounting principles. This amount was \$ 2,523,976.

Classified Employees

Plan Description: All full-time employees of the Muhlenberg County School District that are not covered under KTRS, are covered by the County Employees Retirement System (CERS), which is a cost-sharing multiple-employer defined benefit plan. KRS 78.510 through 78.852 of the Commonwealth of Kentucky assigns the authority to establish and amend the benefit provision of the plan. The County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124, or by calling 502-564-4646.

Funding Policy: CERS members are required to contribute 5% of their gross earnings to the pension plan. The District is required to contribute at an actuarially determined rate; the current rate is 13.16% of the annual covered payroll. The contribution requirements of plan members and the employers are established and may be amended by the CERS Board of Trustees as required by KRS 61.565.

The District's total payroll for the year ended June 30, 2007 was \$ 28,021,945 and the payroll for employees covered under CERS was \$ 6,205,050.

The contribution requirement for CERS for the year ended June 30, 2007 was \$ 1,130,124 which consisted of \$ 818,572 from the District and \$ 311,552 from the employees.

Benefits: The pension plan provides for retirement, disability, and death benefits. A member may retire after reaching the age of 55 or accumulating 27 years of service with the District or another entity covered by the CERS. Benefits vest after 5 years of service. Employees who retire at or after age 65 with 48 or more months of credited service are entitled to pension payments for the remainder of their lives equal to between 2.0% and 2.2% of their final, five-year average salary times the number of years for which they were employed by a participant in the retirement system. The final compensation is the average of the five fiscal years during which the member had the highest average monthly salary.

Pension provisions include death and disability benefits. Disability benefits are calculated the same as for normal retirement except that additional years of service may be added to the employee's account, depending on the employee's age and years of service. Death benefits payable to the beneficiary are based on the amount payable had the member filed for retirement at the time of death. If the beneficiary is one person, that person may choose a lifetime monthly benefit.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE H - RETIREMENT PLANS (continued)

Three-year Trend Information. Employer contributions (in thousands):

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 473	100%	\$ -0-
2006	\$ 664	100%	\$ -0-
2007	\$ 818	100%	\$ -0-

NOTE I - COMMITMENTS AND CONTINGENCIES

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District entered into a contract with Clotfelter-Samokar for the construction of a new Central City Elementary School gymnasium. The total contract price is \$ 2,275,803 (including change orders) of which \$ 82,983 was expended on the project at June 30, 2007.

The District entered into a contract with Alliance Corporation for the construction of Muhlenberg South Elementary School. The total contract price is \$ 7,622,961 (including change orders) of which \$ 7,542,961 was expended on the project at June 30, 2007.

On February 1, 2006 the District entered into a contract with Cinergy Communications Company to provide a district-wide fiber optic network between the central office and each of the individual schools and the bus garage. The total contract price is \$ 600,000 of which \$ 52,314 was expended on the project at June 30, 2007.

On December 28, 2006 the District entered into a lease agreement with the Central Kentucky Educational Cooperative, Inc. (CKEC) to provide up to \$ 750,000 worth of electronic equipment to five schools. In consideration of this lease, the District agreed to pay \$ 75,000 for the initial term ending June 30, 2007 and \$ 150,000 for each succeeding year through November 15, 2011. The Board has the right, with a 60 day notice, not to exercise its option to renew each year.

NOTE J - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE K - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis. Contributions to the KARE Workers Compensation Plan for worker's compensation are based on premium rates established by such fund, subject to claims experience modifications and a group discount amount. Annual payroll audits are conducted by the Fund with a balance due or receivable.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - DEFICIT OPERATING/FUND BALANCES

There are no funds of the District which currently have a deficit fund balance. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Capital Outlay	\$ (209,600)
Building	(1,328)

NOTE M - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

NOTE N - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	1	2	Technology Match	\$ 114,648
Operating	1	360	Construction	1,776,592
Operating	310	360	Construction	209,600
Operating	320	360	Construction	12,210
Operating	360	360	Construction	310,059
Operating	1	400	Debt Service Obligations	132,640
Operating	320	400	Debt Service Obligations	1,165,852
Operating	310	400	Debt Service Obligations	<u>464,850</u>
				<u>\$ 4,186,451</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to the Basic Financial Statements
June 30, 2007

NOTE O - DEFERRED COMPENSATION PLAN

The District offers its employees deferred compensation plans created in accordance with Internal Revenue Code Sections 401(k) and 403(b). Employees are allowed to contribute to the Plans up to the Internal Revenue Code maximum allowable amount. The District does not contribute to the Plans.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on its statements.

Investments are managed by the Plan's trustee under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

NOTE P - SIGNIFICANT TAXPAYER

For the year ended June 30, 2007, the District received \$ 6,047,849 from the Tennessee Valley Authority (TVA) as payment in-lieu-of-tax, which represented 13.4% of total governmental fund revenues.

NOTE Q - ON - BEHALF PAYMENTS

For the year ended June 30, 2007, total payments of \$ 6,505,196 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate fund's revenue and expense accounts on the statement of revenue, expenditures and changes in fund balances.

NOTE R - PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for 2007 have been adjusted for bus garage inventory not recorded previously. The effect of the restatement was to increase beginning net assets for the period ended June 30, 2006, by \$ 171,229.

	Net Assets, As Previously Reported	Inventory Restatement	Beginning Net Assets As Restated
Governmental Activities Net Assets	\$ 37,322,443	\$ 171,230	\$ 37,493,673

SUPPLEMENTARY INFORMATION

Required Supplementary Information
MUHLENBERG COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Property taxes	\$ 4,125,000	\$ 4,315,000	\$ 4,248,169	\$ (66,831)
Motor vehicle taxes	650,000	825,000	890,198	65,198
Unmined minerals	75,000	125,000	124,381	(619)
Utility taxes	-	-	-	-
Other taxes	22,000	23,000	23,157	157
Revenue other local government units	5,500,000	6,613,244	6,613,244	-
Tuition and fees	-	-	-	-
Transportation	130,513	169,000	91,771	(77,229)
Earnings on investments	275,150	691,000	677,051	(13,949)
Community service activities	3,644	-	-	-
Other local revenues	101,100	101,935	237,490	135,555
State sources				
SEEK	20,061,452	20,448,000	20,448,400	400
Other	71,417	147,000	6,371,271	6,224,271
Federal - direct	37,000	75,000	44,515	(30,485)
Federal - indirect	-	-	-	-
Intermediate sources	-	-	2,136	2,136
Other revenues	50,000	106,200	112,058	5,858
Total revenues	31,102,276	33,639,379	39,883,841	6,244,462
Expenditures				
Instruction	21,519,563	18,508,251	23,899,410	(5,391,159)
Support services				
Student	967,729	1,073,418	1,144,385	(70,967)
Instruction staff	847,239	859,720	1,053,149	(193,429)
District administration	1,642,359	1,615,345	967,265	648,080
School administration	1,432,537	1,486,087	1,569,734	(83,647)
Business	590,060	1,411,401	691,604	719,797
Plant operation and maintenance	3,263,384	3,986,760	4,301,450	(314,690)
Student transportation	2,695,610	2,859,374	3,317,467	(458,093)
Central office	-	-	-	-
Food service operation	75,525	63,200	56,783	6,417
Community services	49,052	66,607	60,989	5,618
Facilities acquisition and construction	3,738,606	8,552,145	35,527	8,516,618
Other	2,774,002	3,161,667	-	3,161,667
Total expenditures	39,595,666	43,643,975	37,097,763	6,546,212
Excess (deficit) of revenues over expenditures	(8,493,390)	(10,004,596)	2,786,078	12,790,674
Other Financing Sources (Uses)				
Capital lease proceeds	-	750,000	-	(750,000)
Operating transfers in	-	-	-	-
Operating transfers out	(715,445)	(1,709,185)	(1,709,185)	-
Total other financing sources (uses)	(715,445)	(959,185)	(1,709,185)	(750,000)
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(9,208,835)	(10,963,781)	1,076,893	12,040,674
Net change in fund balances	(9,208,835)	(10,963,781)	1,076,893	12,040,674
Fund balance, July 1, 2006	9,208,835	10,963,781	11,848,655	884,874
Fund balance, June 30, 2007	\$ -	\$ -	\$ 12,925,548	\$ 12,925,548

Note : On-behalf payments are not budgeted.

Required Supplementary Information
MUHLBERG COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule - Special Revenue Fund
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget Favorable (Unfavorable)
Revenues				
From local sources				
Property taxes	\$ -	\$ -	\$ -	\$ -
Motor vehicle taxes	-	-	-	-
Unmined minerals	-	-	-	-
Utility taxes	-	-	-	-
Other taxes	-	-	-	-
Revenue other local government units	-	-	-	-
Tuition and fees	-	-	-	-
Transportation	-	-	-	-
Earnings on investments	-	-	31,342	31,342
Student activities	-	-	-	-
Other local revenues	-	-	-	-
State sources	-	-	-	-
SEEK	-	-	-	-
Other	1,655,019	1,886,901	1,819,802	(67,099)
Federal - direct	93,000	80,543	82,788	2,245
Federal - indirect	3,270,814	3,219,973	3,168,523	(51,450)
Intermediate sources	57,363	58,164	59,770	1,606
Other revenues	-	-	-	-
Total revenues	5,076,196	5,245,581	5,162,225	(83,356)
Expenditures				
Instruction	4,385,652	4,281,412	4,513,892	(232,480)
Support services				
Student	21,500	36,176	90,814	(54,638)
Instruction staff	26,094	149,920	139,838	10,082
District administration	-	1,240	687	553
School administration	-	-	-	-
Business	119,340	229,296	(147,169)	376,465
Plant operation and maintenance	-	-	-	-
Student transportation	-	107,700	150,145	(42,445)
Central office	-	-	-	-
Food service operation	-	-	-	-
Community services	583,280	554,485	528,666	25,819
Facilities acquisition and construction	-	-	-	-
Other	-	-	-	-
Total expenditures	5,135,866	5,360,229	5,276,873	83,356
Excess (deficit) of revenues over expenditures	(59,670)	(114,648)	(114,648)	-
Other Financing Sources (Uses)				
Operating transfers in	59,670	114,648	114,648	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	59,670	114,648	114,648	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance, July 1, 2006	-	-	-	-
Fund balance, June 30, 2007	\$ -	\$ -	\$ -	\$ -

MUHLENBERG COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Govt. Funds
ASSETS				
Cash and cash equivalents	\$ -	\$ 10,882	\$ -	\$ 10,882
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Taxes - current	-	-	-	-
Taxes - delinquent	-	-	-	-
Other	-	-	-	-
Intergovernmental - State	-	-	-	-
Intergovernmental - Federal	-	-	-	-
Prepaid expense	-	-	-	-
Due from other funds	-	-	-	-
Interest receivable	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 10,882</u>	<u>\$ -</u>	<u>\$ 10,882</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Retained percentage contracts	-	-	-	-
Accrued payroll and related expenses	-	-	-	-
Due to other funds	-	-	-	-
Deferred revenues	-	-	-	-
Obligations under capital lease	-	-	-	-
Debt obligations	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Retained earnings	-	-	-	-
Restricted for inventory/fixed assets	-	-	-	-
Unrestricted	-	-	-	-
Fund balances	-	-	-	-
Restricted for libraries	-	-	-	-
Restricted for sick leave payable	-	-	-	-
Encumbrances - current year	-	-	-	-
Restricted for construction	-	10,882	-	10,882
Unreserved	-	-	-	-
Total fund balances	<u>-</u>	<u>10,882</u>	<u>-</u>	<u>10,882</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 10,882</u>	<u>\$ -</u>	<u>\$ 10,882</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2007

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Govt. Funds
Revenues				
From local sources				
Property taxes	\$ -	\$ 604,107	\$ -	\$ 604,107
Motor vehicle taxes	-	-	-	-
Unmined minerals	-	-	-	-
Utility taxes	-	-	-	-
Other taxes	-	-	-	-
Revenue other local government units	-	-	-	-
Tuition and fees	-	-	-	-
Transportation	-	-	-	-
Earnings on investments	-	-	-	-
Student activities	-	-	-	-
Other local revenues	-	-	-	-
State sources				
SEEK	-	-	-	-
Other	467,450	884,722	-	1,352,172
Intermediate sources	-	-	-	-
Federal - direct	-	-	-	-
Federal - indirect	-	-	-	-
Other revenues	-	-	-	-
Total revenues	<u>467,450</u>	<u>1,488,829</u>	<u>-</u>	<u>1,956,279</u>
Expenditures				
Instruction	-	-	-	-
Support services				
Student	-	-	-	-
Instruction staff	-	-	-	-
District administration	-	-	-	-
School administration	-	-	-	-
Business	-	-	-	-
Plant operation and maintenance	-	-	-	-
Student transportation	-	-	-	-
Central office	-	-	-	-
Food service operation	-	-	-	-
Community service activities	-	-	-	-
Facilities acquisition and construction	-	-	76,240	76,240
Other	-	-	1,763,342	1,763,342
Total expenditures	<u>-</u>	<u>-</u>	<u>1,839,582</u>	<u>1,839,582</u>
Excess (deficit) of revenues over expenditures	<u>467,450</u>	<u>1,488,829</u>	<u>(1,839,582)</u>	<u>116,697</u>
Other Financing Sources (Uses)				
Proceeds of refunding debt	-	-	4,015,000	4,015,000
Payment to refunding debt escrow agent	-	-	(3,938,760)	(3,938,760)
Operating transfers in	-	-	1,763,342	1,763,342
Operating transfers out	(677,050)	(1,490,157)	-	(2,167,207)
Total other financing sources (uses)	<u>(677,050)</u>	<u>(1,490,157)</u>	<u>1,839,582</u>	<u>(327,625)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(209,600)</u>	<u>(1,328)</u>	<u>-</u>	<u>(210,928)</u>
Net change in fund balances	<u>(209,600)</u>	<u>(1,328)</u>	<u>-</u>	<u>(210,928)</u>
Fund balance, July 1, 2006	<u>209,600</u>	<u>12,210</u>	<u>-</u>	<u>221,810</u>
Fund balance, June 30, 2007	<u>\$ -</u>	<u>\$ 10,882</u>	<u>\$ -</u>	<u>\$ 10,882</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 AGENCY FUNDS
 June 30, 2007

	Bremen Elementary School	Central City Elementary School	Greenville Elementary School	Longest Elementary School	Muhlenberg South Elementary School	Muhlenberg North Middle School	Muhlenberg South Middle School	Muhlenberg North High School	Muhlenberg South High School	Totals
ASSETS										
Cash and cash equivalents	\$ 19,235	\$ 45,544	\$ 34,376	\$ 77,372	\$ 16,802	\$ 56,591	\$ 31,750	\$ 165,017	\$ 189,296	\$ 635,983
Accounts receivable	-	-	-	-	29	-	-	170	8,051	8,250
Total Assets	<u>\$ 19,235</u>	<u>\$ 45,544</u>	<u>\$ 34,376</u>	<u>\$ 77,372</u>	<u>\$ 16,831</u>	<u>\$ 56,591</u>	<u>\$ 31,750</u>	<u>\$ 165,187</u>	<u>\$ 197,347</u>	<u>\$ 644,233</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 275	\$ -	\$ 141	\$ -	\$ 796	\$ -	\$ -	\$ 18,568	\$ 45,041	\$ 64,821
Due to student groups	18,960	45,544	34,235	77,372	16,035	56,591	31,750	146,619	152,306	579,412
Total liabilities	<u>19,235</u>	<u>45,544</u>	<u>34,376</u>	<u>77,372</u>	<u>16,831</u>	<u>56,591</u>	<u>31,750</u>	<u>165,187</u>	<u>197,347</u>	<u>644,233</u>
Fund Balances										
Unrestricted	-	-	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 19,235</u>	<u>\$ 45,544</u>	<u>\$ 34,376</u>	<u>\$ 77,372</u>	<u>\$ 16,831</u>	<u>\$ 56,591</u>	<u>\$ 31,750</u>	<u>\$ 165,187</u>	<u>\$ 197,347</u>	<u>\$ 644,233</u>

MUHLBERG COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
AGENCY FUNDS
For the year ended June 30, 2007

Revenues	Bremen Elementary School	Central City Elementary School	Greenville Elementary School	Longest Elementary School	Muhlenberg South Elementary School	Muhlenberg North Middle School	Muhlenberg South Middle School	Muhlenberg North High School	Muhlenberg South High School	Totals
From local sources										
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor vehicle taxes	-	-	-	-	-	-	-	-	-	-
Unmined minerals	-	-	-	-	-	-	-	-	-	-
Utility taxes	-	-	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-	-	-
Revenue other local government units	-	-	-	-	-	-	-	-	-	-
Tuition and fees	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-
Earnings on investments	-	-	-	-	-	-	-	-	-	-
Student activities	178,694	163,320	73,179	292,263	98,893	98,700	125,345	589,621	487,648	2,107,663
Other local revenues	-	-	-	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-	-	-	-
SEEK	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Intermediate sources	-	-	-	-	-	-	-	-	-	-
Federal - direct	-	-	-	-	-	-	-	-	-	-
Federal - indirect	-	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-	-
Total revenues	178,694	163,320	73,179	292,263	98,893	98,700	125,345	589,621	487,648	2,107,663
Expenditures	183,231	161,894	77,249	273,537	90,076	93,730	125,859	596,730	522,547	2,124,853
Instruction	-	-	-	-	-	-	-	-	-	-
Support services	-	-	-	-	-	-	-	-	-	-
Student	-	-	-	-	-	-	-	-	-	-
Instruction staff	-	-	-	-	-	-	-	-	-	-
District administration	-	-	-	-	-	-	-	-	-	-
School administration	-	-	-	-	-	-	-	-	-	-
Business	-	-	-	-	-	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-	-	-	-	-	-
Student transportation	-	-	-	-	-	-	-	-	-	-
Central office	-	-	-	-	-	-	-	-	-	-
Food service operation	-	-	-	-	-	-	-	-	-	-
Community service activities	-	-	-	-	-	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-	-	-	-	-	-
Other	(4,537)	1,426	(4,070)	18,726	8,817	4,970	(514)	(7,109)	(34,899)	(17,190)
Total expenditures	178,694	163,320	73,179	292,263	98,893	98,700	125,345	589,621	487,648	2,107,663
Excess (deficit) of revenues over expenditures	-	-	-	-	-	-	-	-	-	-
Other Financing Sources (Uses)										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	-	-	-	-	-	-	-	-
Fund balance, July 1, 2005	-	-	-	-	-	-	-	-	-	-
Fund balance, June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

MUHLERBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLERBERG NORTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Due to Student Groups 6/30/07
Academic Team	\$ 354	\$ -	\$ 186	\$ 168	\$ -	168
Annual	3,603	28,185	27,077	4,711	-	4,711
Art Club	564	952	596	920	-	920
Art Dept.	1,248	245	1,269	224	-	224
Athletic Boosters	9,241	41,594	39,489	11,346	-	11,346
Athletic Fund	5,904	85,272	87,234	3,942	-	3,942
Band	959	11,919	12,708	170	-	170
Baseball	4,479	3,410	3,112	4,777	-	4,777
Baseball Trip	33	7,384	6,495	922	-	922
Beta Club	935	3,581	4,314	202	-	202
Book Rentals	-	8,175	8,175	-	-	-
Book Store	181	1,122	58	1,244	-	1,244
Boston Trip - Beth Travis	-	1,363	1,363	-	-	-
Boy's Basketball	6,940	8,825	14,123	1,641	-	1,641
Business Dept.	829	90	-	919	-	919
Cats Testing Donations	200	-	47	153	-	153
CEC Club	218	205	120	304	-	304
Champs Against Drugs	108	-	-	108	-	108
Cheerleaders	1,923	6,615	7,360	1,178	-	1,178
Chorus	567	244	480	331	-	331
Christian Athletes	42	-	-	42	-	42
Class of 2006-2007	326	2,200	1,966	560	-	560
Teachers' Materials	753	-	-	753	-	753
Class of 2007-2008	-	16,300	15,808	492	-	492
Class of 2005-2006	2,456	-	2,113	343	-	343
Computers	1,784	-	-	1,784	-	1,784
Concessions	9,596	30,749	29,515	10,831	-	10,831
Cross Country	969	3,124	2,664	1,429	-	1,429
Dance	187	6,309	5,141	1,354	-	1,354
D.E.C.A. Club	166	958	1,105	19	-	19
Drama	13	908	251	669	-	669
Drama Club	2,022	9,597	8,420	3,199	-	3,199
English Dept.	346	-	25	321	-	321
Environmental Club	35	-	-	35	-	35

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLENBERG NORTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Due to Student Groups 6/30/07
Extra Work To Board	\$ -	\$ 4,185	\$ 4,185	\$ -	\$ -	-
Faculty and Staff Gift	85	-	69	15	-	15
FBLA Club	147	2,889	2,751	285	-	285
FFA	3,197	17,409	19,611	995	-	995
FCCLA	755	6,619	6,450	923	-	923
Family and Consumer Science	1,498	3,862	4,251	1,109	-	1,109
Football	10,445	15,365	14,174	11,636	-	11,636
Future Educators of America	71	50	-	121	-	121
Gaming Tech Club	88	-	-	88	-	88
General Fund (incl. Sweep Acct)	4,688	124,814	126,855	2,647	-	2,647
Girl's Basketball	8,291	7,170	12,939	2,522	-	2,522
Bill Gattton Foundation Scholarship	908	55,642	53,412	3,138	-	3,138
Golf - Boy's	5,326	4,316	4,215	5,427	-	5,427
Golf - Girl's	2,819	3,105	2,567	3,357	-	3,357
Greenhouse	7,742	4,952	4,670	8,024	-	8,024
Guidance	847	1,721	1,759	809	-	809
High School Fees	4,371	7,555	11,500	426	-	426
George Taylor Classic	5,972	10,384	4,566	11,790	-	11,790
Industrial Arts	1,688	724	300	2,112	-	2,112
JROTC	1,754	3,686	4,781	659	-	659
KYA (D. Lampton)	82	-	-	82	-	82
Library	1,599	2,201	794	3,006	-	3,006
Lost Books	-	35	35	-	-	-
Marketing	355	-	-	355	-	355
Math Club	690	1,772	1,605	856	-	856
Math Dept.	6	-	-	6	-	6
Medialism Club	188	-	188	-	-	-
Milk Machine Montes	1,378	5,800	6,375	804	-	804
MNHS Newspaper	500	1,928	1,104	1,324	-	1,324
Muhlenberg North Financial Center	19,760	32,340	28,581	23,518	(18,398)	5,120
Multicultural Club	430	1,908	2,155	182	-	182
National Honor Society	643	1,608	1,406	846	-	846
Scholarship Fund	371	1,000	1,000	371	-	371
Science Department	66	32	54	44	-	44

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLENBERG NORTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Due to Student Groups 6/30/07
Powerlifting	\$ -	360	100	\$ 260	\$ -	260
Soccer - Boys'	1,800	2,610	2,895	1,515	-	1,515
Soccer - Girls'	1,878	3,759	3,401	2,236	-	2,236
Social Studies	576	-	48	528	-	528
Softball	7,470	9,395	13,322	3,542	-	3,542
Spanish Club	-	394	394	-	-	-
Spirit Club	5,134	6,976	5,795	6,315	-	6,315
Student Council	864	424	1,209	79	-	79
Student Snacks	3,716	3,808	5,874	1,649	-	1,649
Technology Club	143	625	653	115	-	115
Tennis	1,969	1,090	1,287	1,772	-	1,772
Track Team	3,792	2,494	4,010	2,275	-	2,275
Swim Team	885	510	362	1,033	-	1,033
Book Club	-	126	126	-	-	-
Volleyball	-	2,230	1,206	1,024	-	1,024
Special Ed. - Stringer	161	-	57	104	-	104
Less: Interfund Transfers	172,126	637,197	644,307	165,016	(18,398)	146,619
	-	(47,576)	(47,576)	-	-	-
Totals:	\$ 172,126	\$ 589,621	\$ 596,730	\$ 165,017	\$ (18,398)	\$ 146,619

Cash Balances at June 30, 2006 and 2007 consist of:

	2006	2007
Cash in bank (incl. Sweep Account)	\$ 62,335	\$ 141,498
Cash in bank - Muhlenberg North Financial Center	19,759	23,518
Certificate of Deposit	90,032	-
	\$ 172,126	\$ 165,017

MUHLBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLBERG SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Fund Balance 6/30/07
Academic Team	\$ 815	\$ 25	\$ 203	\$ 637	\$ 532	\$ 1,169
Agriculture	1,200	-	320	881	-	881
AP Test Fees	-	1,121	709	412	-	412
Art Honor Society	138	4,468	4,606	-	-	-
Athletic Banners	3,848	3,800	6,681	966	-	966
Athletic Boosters	1,526	-	1,526	-	-	-
Athletic Fund	5,106	53,136	57,330	913	-	913
Athletic T-Shirt Fundraiser	-	10,247	8,587	1,660	-	1,660
Athletic Uniforms	98	-	-	98	-	98
Book Rental	-	6,418	6,418	-	-	-
Caney Creek Scholarship	11,305	-	4,500	6,805	-	6,805
Chess Club	2,259	-	183	2,076	-	2,076
Chorus	344	171	417	99	-	99
Chris Richie Scholarship Fund	500	-	500	-	-	-
Class of 01-02	1,192	-	216	976	-	976
Class of 02-03	2,801	-	802	1,999	-	1,999
Class of 03-04	3,432	-	1,242	2,190	-	2,190
Class of 04-05	330	-	-	330	-	330
Class of 05-06	94	727	118	704	-	704
Class of 06-07	1,861	10	1,436	434	-	434
Class of 07-08	124	10,682	4,933	5,873	(5,700)	173
Class Trips	239	-	-	239	-	239
Concessions	11,553	38,986	41,581	8,958	(2,400)	6,558
Dance Team	497	4,128	4,535	90	-	90
DECA Club	259	8,688	8,532	415	-	415
DECA Store	521	6,587	6,292	816	-	816
DECA / FCCLA	306	-	-	306	-	306
District Tournament	2,821	16,081	14,320	4,582	-	4,582
Drama Club	321	-	138	183	-	183
Enviro Club / Belhasen	-	100	-	100	-	100
Environmental Fund	400	-	400	-	-	-
Extra Salary - Board	-	11,813	11,813	-	-	-
Family / Consumer	23	111	131	3	-	3
FBLA Club	97	90	108	79	-	79
FCA	54	-	-	54	-	54
FHA/FCCLA	-	334	56	278	-	278
FFA	1,811	16,536	17,072	1,275	-	1,275
FMD	15	155	162	8	-	8
Foreign Language	934	-	45	889	-	889
Freshman Academy	468	7,831	8,099	200	-	200
Future Educators	941	375	216	1,101	-	1,101

MUHLERBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLERBERG SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Fund Balance 6/30/07
Gatorade / Athletics	\$ -	\$ 598	\$ -	\$ 598	-	598
General Fund	68,630	36,607	53,593	51,645	-	51,645
Get Started	2,596	-	-	2,596	-	2,596
Girls Soccer	1,228	619	644	1,203	-	1,203
Girls Tennis	603	1,168	1,541	231	-	231
Greenhouse	10,089	6,368	4,451	12,006	-	12,006
Guidance	-	160	-	160	-	160
Guitar Club	-	260	200	60	-	60
Health Careers	70	475	470	75	-	75
IGA Scholarship	2,500	-	1,000	1,500	-	1,500
John R. Owens Memorial Scholarship	2,500	-	2,500	-	-	-
Journalism	135	15,625	15,760	-	-	-
JROTC	159	3,108	2,697	570	113	683
Junior Beta Club	530	139	173	496	-	496
Kick for Cash / Money Ball	-	1,000	737	263	-	263
Library	349	-	-	349	-	349
Line Dance Club	-	340	331	10	-	10
Lost Books	-	72	72	-	-	-
Marching Band	785	8,669	9,255	199	-	199
Math/Physics Club	472	78	320	230	-	230
Media	936	1,134	232	1,838	-	1,838
Milk Machine	1,000	2,748	1,823	1,925	-	1,925
Memorial Fund	870	-	120	750	-	750
Misc. Baseball	735	7,003	7,508	230	-	230
Misc. Boy's Basketball	1,604	19,606	18,870	2,340	-	2,340
Misc. Boy's Golf	296	3,626	2,746	1,176	-	1,176
Misc. Cross Country	546	16,429	16,932	43	-	43
Misc. Football	736	5,665	6,286	115	-	115
Misc. Girl's Basketball	1,568	11,614	12,902	280	879	1,159
Misc. Girl's Golf	78	2,000	1,548	530	-	530
Misc. Track	272	2,151	2,294	129	-	129
Misc. Softball	1,011	4,337	4,763	584	-	584
Misc. Swim Team	478	96	557	17	-	17
Misc. Soccer	33	565	598	-	-	-
Misc. Tourney Account	-	3,130	2,601	529	-	529
Boy's Tennis	139	1,127	1,266	-	-	-
MSHS Financial Center	42,651	52,574	55,613	39,612	(31,454)	8,158
MSHS PTO	363	-	-	363	-	363
MSHS Scholarship	645	-	-	645	-	645
Multi Cultural	536	422	934	24	-	24
National Honor Society	484	2,352	2,375	461	-	461

MUHLBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
MUHLBERG SOUTH HIGH SCHOOL
ACTIVITY FUND
Year Ended June 30, 2007

	Cash Balance 6/30/06	Receipts	Dis- bursements	Cash Balance 6/30/07	Accounts Receivable (Payable)	Fund Balance 6/30/07
Newspaper	\$ 296	\$ 4,163	\$ 3,805	\$ 653	-	\$ 653
Phys/Astronomy Club	138	394	403	130	-	130
Project Prom	-	1,119	1,119	-	-	-
Regional Baseball 07	-	7,455	6,998	457	-	457
Regional Tourney	-	19,976	18,590	1,387	-	1,387
Rewards	2,460	-	1,182	1,278	-	1,278
RPG Club	175	-	-	175	-	175
SADD Club	128	250	337	41	-	41
Sarah's Scholarship	2,432	2,000	2,000	2,432	-	2,432
S.C.A Club	140	-	-	140	-	140
Science	791	-	450	341	-	341
Semi-State Baseball	-	6,797	6,622	175	-	175
Senior Beta Club	986	1,071	1,817	240	-	240
Spirit Club	1,408	2,087	3,320	174	-	174
STLP	857	60	294	623	-	623
Student Council	382	1,606	213	1,775	-	1,775
Sunshine Fund	69	236	122	183	-	183
Teacher's Lounge	5,018	1,409	4,172	2,256	(179)	2,077
TSA	35	347	346	36	-	36
Varsity Cheerleader	3,027	9,771	10,301	2,497	1,358	3,855
Vending Candy	500	-	-	500	-	500
Vending Drinks	1,000	4,148	4,148	1,000	(139)	861
Y - Club	492	-	-	492	-	492
Yearbook	-	10,274	8,373	1,901	-	1,901
Less: Interfund Transfers	224,193	487,648	522,547	189,296	(36,990)	152,306
	-	-	-	-	-	-
	<u>\$ 224,193</u>	<u>\$ 487,648</u>	<u>\$ 522,547</u>	<u>\$ 189,296</u>	<u>\$ (36,990)</u>	<u>\$ 152,306</u>

Cash Balances at June 30, 2006 and 2007 consist of:

	2006	2007
Cash in bank - checking	\$ 170,431	\$ 138,126
Cash in bank - Muhlenberg		
South Financial Center	42,652	14,613
Certificate of Deposit - MSFC	-	25,000
Certificate of Deposit	11,112	11,558
	<u>\$ 224,193</u>	<u>\$ 189,296</u>

MUHLENBERG COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
J.P. MORGAN
Year ended June 30, 2007

BEGINNING FUND BALANCE, July 1, 2006	<u>\$ 380,288</u>
RECEIPTS	
Dividends received	9,044
Gain on sale of investment	-
Increase in fair value of investments	<u>135,673</u>
	144,717
DISBURSEMENTS	
Instruction	2,853
Commission	<u>-</u>
	<u>2,853</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>141,864</u>
OTHER FINANCING SOURCES (USES)	
Operating transfer out	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>141,864</u>
ENDING FUND BALANCE, June 30, 2007	<u><u>\$ 522,152</u></u>

**MUHLENBERG COUNTY SCHOOL DISTRICT
KENTUCKY TEACHERS' RETIREMENT SYSTEM
ACCOUNTING INFORMATION
June 30, 2007**

Governmental Accounting Standards Board Statement No. 25 and 27 sets forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Members
as of June 30, 2006

Group	Number
Retirees and Beneficiaries currently receiving benefits	38,497
Terminated employees entitled to benefits but not yet receiving benefits	4,275
Active Plan Members:	<u>73,740</u>
TOTAL	<u><u>116,512</u></u>

**MUHLENBERG COUNTY SCHOOL DISTRICT
KENTUCKY TEACHERS RETIREMENT SYSTEM
ACCOUNTING INFORMATION
June 30, 2007**

Another such item is the schedule of funding progress as shown below.

Schedule of Funding Progress (Dollar amount in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
6/30/01*	\$ 13,299,161	\$ 14,642,129	\$ 1,342,968	90.8	\$ 2,213,772	60.7
6/30/02	13,588,847	15,695,574	2,106,726	86.6	2,313,663	91.1
6/30/03	13,863,786	16,594,781	2,730,995	83.5	2,497,731	109.3
6/30/04	14,255,131	17,617,626	3,362,495	80.9	2,641,533	127.3
6/30/05	14,598,843	19,134,870	4,536,027	76.3	2,703,430	167.8
6/30/06	14,857,641	20,324,781	5,467,140	73.1	2,859,477	191.2
*Reflects change in decremental assumptions.						

*Reflects change in decremental assumptions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2005. Additional information as of the latest actuarial valuation follows.

Valuation Date.....	6/30/06
Actuarial Cost Method.....	Projected Unit Credit
Amortization Method.....	Level Percent of Pay, Open
Remaining Amortization Period.....	30 Years
Asset Valuation Method.....	5-Year Smoothed Market

Investment Rate of Return*	7.50%
Projected Salary Increases*	4.00 ~ 8.20%
Cost-of-Living Adjustment.....	1.50% Annually
*Includes Inflation at.....	4.00%

MUHLENBERG COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Accrued (Deferred) June 30, 2006	Revenue Recognized	Expenditures	Accrued (Deferred) June 30, 2007
U.S. Department of Education							
Passed through the Commonwealth of Kentucky,							
Department of Education:							
Title I, Part A	84.010	A 3106	\$ 1,390,450	\$ 380,623	\$ 595,948	\$ 215,325	\$ -
Title I, Part A	84.010	A 3107	1,387,202	-	987,500	1,064,275	76,775
Migrant Education	84.011	A 3116	46,750	11,705	20,005	8,233	(67)
Title V, Innovative Programs	84.298	3346	16,744	2,882	5,244	2,362	-
Title V, Innovative Programs	84.298	3347	8,110	-	8,110	8,110	-
Special Education - Cluster							
IDEA-B Basic/Silver Award	84.027	A 3375	938,646	142,007	142,007	-	-
IDEA-B Basic/Silver Award	84.027	A 3376	975,516	48,771	775,425	874,595	147,941
IDEA-B Basic/Silver Award	84.027	A 3377	976,715	-	-	-	-
IDEA-B Basic/Silver Award	84.173	A 3436	73,456	14,611	38,956	24,345	-
IDEA-B Basic/Silver Award	84.173	A 3437	73,536	-	34,900	46,683	11,783
Vocational Ed Basic Grants to States Carryover	84.048	3485A	1,596	1,596	1,596	-	-
Vocational Ed Basic Grants to States	84.048	3486	56,191	8,431	8,431	-	-
Vocational Ed Basic Grants to States Carryover	84.048	3486A	2,471	-	2,471	2,471	-
Vocational Ed Basic Grants to States	84.048	3487	58,100	-	51,132	58,100	6,968
*Rural Education Achievement Program	84.358	B 3505	165,623	3,465	133,123	129,658	-
*Rural Education Achievement Program	84.358	B 3506	158,872	-	100,200	158,872	58,672
*Rural Education Achievement Program	84.358	B 3507	149,627	-	-	136,977	136,977
*Title II, Part A Teacher & Principal Training & Recruiting	84.367	A 4016	360,958	104,158	104,158	-	-
Title IV Safe and Drug Free Schools and Communities	84.367	A 4017	357,132	-	326,918	357,132	30,214
Title IV Safe and Drug Free Schools and Communities	84.186	4065	36,322	1,949	25,600	23,651	-
Title IV Safe and Drug Free Schools and Communities	84.186	4066	35,150	-	10,600	12,007	1,407
Title IV Safe and Drug Free Schools and Communities	84.186	4067	27,695	-	-	-	-
Enhancing Education Through Technology	84.318	X 4255	34,702	(3,237)	1,498	4,735	-
Enhancing Education Through Technology	84.318	X 4255O	91,141	2,956	20,997	18,041	-
Enhancing Education Through Technology	84.318	X 4256	26,094	20,225	16,000	(4,312)	(87)
Enhancing Education Through Technology	84.318	X 4256O	71,765	-	27,777	39,764	11,987
Enhancing Education Through Technology	84.318	X 4257	13,904	-	-	-	-
Passed through the Commonwealth of Kentucky,							
Cabinet for Workforce Development:							
Rehabilitation Services, Vocational Rehabilitation	84.126	3767	21,500	-	14,173	14,173	-
Total U.S. Department of Education				740,142	3,452,769	3,195,197	482,570

MUHLENBERG COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Accrued (Deferred) June 30, 2006	Revenue Recognized	Expenditures	Accrued (Deferred) June 30, 2007
<u>U.S. Department of Health and Human Services</u> Passed through the Commonwealth of Kentucky, Cabinet for Workforce Development: Rural Health Outreach and Network Development	93.912	C 6707	43,110	\$ -	43,110	\$ 43,110	-
Total U.S. Department of Health and Human Services				-	43,110	43,110	-
<u>U.S. Department of Labor</u> Passed through the Western Kentucky Workforce Investment Board: Workforce Investment Act Youth Activities	17.259	5886	36,750	7,079	7,079	-	-
Total U.S. Department of Labor				7,079	7,079	-	-
<u>U.S. Department of Agriculture</u> Passed through the Commonwealth of Kentucky, Department of Agriculture: *Food Distribution (In-Kind Commodities) Passed through the Commonwealth of Kentucky, Department of Education: <i>Child Nutrition - Cluster</i> *School Breakfast Program *School Breakfast Program *National School Lunch Program *National School Lunch Program *National School Lunch Program *Summer Meal *Summer Meal	10.550	N/A	284,062	-	284,062	-	-
	10.553	7760005-06	324,984	26,079	98,535	72,456	-
	10.553	7760005-07	274,870	-	274,870	274,870	-
	10.555	7750002-06	971,394	74,282	295,090	220,808	-
	10.555	7750002-07	813,095	-	813,095	813,095	-
	10.555	7750008-07	29,680	-	29,680	29,680	-
	10.559	7740023-06	26,311	20,385	25,788	23,360	17,957
	10.559	7690024-06	2,648	2,092	2,648	3,950	3,394
Total U.S. Department of Agriculture				122,838	1,823,768	1,722,281	21,351
<u>U.S. Department of Defense</u> Direct Program: Reserve Officer's Training Corps Reserve Officer's Training Corps	12.000 12.000	5046 5047	93,000 93,000	4,987 -	4,987 75,657	- 82,788	- 7,131
Total U.S. Department of Defense				4,987	80,644	82,788	7,131
Total Federal Financial Assistance			\$	875,046	\$ 5,407,370	\$ 5,043,376	\$ 511,052

*= Major Federal Financial Assistance Program

MUHLENBERG COUNTY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Muhlenberg County School District, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B – OTHER FEDERAL AWARDS

The District did not receive any noncash insurance or have any loan or loan guarantees outstanding at the end of the year. Noncash assistance is reported in the schedule at the fair value of commodities disbursed.

ALEXANDER & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- SERVING OUR CLIENTS SINCE 1924 -

2707 BRECKENRIDGE STREET, SUITE 1
OWENSBORO, KENTUCKY 42303
TELEPHONE (270) 684-3237
FAX (270) 684-3200
E-MAIL: ACO@ACOCPA.NET

ROBERT E. NATION, CPA
LARRY E. O'BRYAN, CPA
J.L. BYRNE, CPA
DONALD W. HAAS, CPA
W.A. (TONY) BYRNE, CPA
JOSEPH B. KELLER, JR., CPA
W. ANNETTE POGUE, CPA
JERRY L. KELLER, CPA
JENNIFER L. ESTES, CPA
DONNA K. RISLEY, CPA
JANE B. KAMUF, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Muhlenberg County School District (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements* and *Appendix III of the Independent Auditor's Contract - Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over the financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be a material weakness. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion of compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of noncompliance with specific statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements* except as indicated below.

According to KRS 160.520, and more specifically OAG 808, penalties and interest on taxes due to a school district must be paid to the district. During the year ended June 30, 2007, the county clerk remitted delinquent taxes net of the sheriff's, county attorney's and county clerk's collection fee which was collected on the penalties and interest.

According to KRS 424.220, local boards of education are required to publish an annual financial statement that includes the total amount of funds collected and received during the year from each individual source and the amount dispersed during the fiscal year to each individual payee and the purpose for which the funds were expended. The fiscal year 2006 annual financial statement published in August 2006 did not include the purpose of the individual expenditures or show the payment to teachers separately.

According to KRS 45A.365(2) the invitation for bids shall state that the award shall be made on the basis of the lowest bid price or the lowest evaluated bid price. During the year ended June 30, 2007 one bid advertisement did not contain that statement.

According to KRS 45A.365(3) the invitation for bids shall include the time and place bids are opened. During the year ended June 30, 2007 one bid advertisement did not provide that information.

According to KRS 45A.365(3) the invitation for bids shall include the time and place where bid specifications may be obtained. During the year ended June 30, 2007 four bids did not contain that information.

According to KRS 161.605 districts must report retirees working for the school district have complied with the 100 day limitation rules on Form 30 with the annual report. During the year ended June 30, 2007, it was discovered that the 2006 annual report did not include substitute teachers.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Muhlenberg County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander & Company, PSC

Owensboro, Kentucky
August 16, 2007

ALEXANDER & COMPANY, PSC

CERTIFIED PUBLIC ACCOUNTANTS

- SERVING OUR CLIENTS SINCE 1924 -

2707 BRECKENRIDGE STREET, SUITE 1
OWENSBORO, KENTUCKY 42303
TELEPHONE (270) 684-3237
FAX (270) 684-3200
E-MAIL: ACO@ACOCPA.NET

ROBERT E. NATION, CPA
LARRY E. O'BRYAN, CPA
J.L. BYRNE, CPA
DONALD W. HAAS, CPA
W.A. (TONY) BYRNE, CPA
JOSEPH B. KELLER, JR., CPA
W. ANNETTE POGUE, CPA
JERRY L. KELLER, CPA
JENNIFER L. ESTES, CPA
DONNA K. RISLEY, CPA
JANE B. KAMUF, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Kentucky State Committee for School District Audits
Members of the Board of Education
Muhlenberg County School District
Powderly, Kentucky

Compliance

We have audited the compliance of Muhlenberg County School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Muhlenberg County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of the Muhlenberg County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander & Company, PSC

Owensboro, Kentucky
August 16, 2007

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2007

SUMMARY OF AUDITORS' RESULTS

1. The opinion expressed in the independent accountants' report was:
2. ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
3. The independent accountant's report on internal control over financial reporting described:
 Significant deficiencies noted considered material weakness(es)? ☐ Yes ☒ No
 Significant deficiencies noted that are not considered to be material weakness(es)? ☐ Yes ☒ No
4. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No
5. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiencies noted considered material weakness(es)? ☐ Yes ☒ No
 Significant deficiencies noted that are not considered to be material weakness(es)? ☐ Yes ☒ No
6. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
7. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No
8. The District's major programs were:

Cluster/Program	CFDA Number
Rural Education	84.358
Improving Teacher Quality State Grants	84.367
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

9. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
10. The District qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings And Questioned Costs (continued)
June 30, 2007

FINDINGS - FINANCIAL STATEMENT AUDIT

1. There were no findings or questioned costs which were required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

1. The audit did not disclose any audit finding that the auditor is required to report under Section 510(a) of Circular A-133.

MUHLENBERG COUNTY SCHOOL DISTRICT
Schedule of Findings And Questioned Costs (continued)
June 30, 2007

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDINGS - FINANCIAL STATEMENT AUDIT

1. There were no findings or questioned costs which were required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

1. The audit did not disclose any audit finding that the auditor is required to report under Section 510(a) of Circular A-133.

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JANE B. KAMUF, CPA

August 16, 2007

Muhlenberg County Board of Education
Powderly, Kentucky

In planning and performing our audit of the financial statements of the Muhlenberg County School District for the year ended June 30, 2007, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated August 16, 2007. This letter does not affect our report dated August 16, 2007 on the financial statements of the Muhlenberg County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,



Alexander & Company, PSC
Owensboro, Kentucky

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

CURRENT YEAR COMMENTS

- A. Statement of condition: New bank account and new certificate of deposit was not approved by board.

Criteria of condition: Good internal control.

Cause of condition: No policy.

Effect of condition: Bank accounts could be opened in Board's name with no knowledge of the board.

Recommendation: All new bank accounts should be approved by the Board.

Management's response: These CD's were presented to the Board as part of the monthly financial report but not as an action item requiring a vote. One CD was for the Central City Elementary Project while the other was an old CD that was renewed. We will get these listed as an action item in the future.

- B. Statement of condition: The technology equipment lease and security agreement was not signed.

Criteria of condition: Good internal control.

Cause of condition: Unknown.

Effect of condition: The validity of the agreement could be in question.

Recommendation: The District should keep a signed copy of all contracts and agreements.

Management's response: Our copy of the CKEC Technology Equipment Lease was signed by the necessary MCBE signatures. The lease was executed in the proper manner and we now have a copy of the executed lease signed by both parties.

- C. Statement of condition: The cash advance on the Rural Education grant exceeded expenditures by \$ 12,500 .

Criteria of condition: OMB Cost Principle Circular A-87.

Cause of condition: Cash request procedures not followed.

Effect of condition: Overdrawn cash had to be refunded.

Recommendation: Procedures to request cash on federal programs should be followed.

Management's response: Cash request was made in error for \$12,500 more than expenditures. Amount was refunded promptly in full. Grant balances will be monitored for correct cash balance requests.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2007**

CURRENT YEAR COMMENTS (continued)

- D. Statement of condition: Monthly requests for cash on the Teacher Quality grant was not made.

Criteria of condition: Good cash flow procedures.

Cause of condition: Unknown.

Effect of condition: Decreases the District's cash flow.

Recommendation: Cash requests on grant programs should be made monthly.

Management's response: The District was not in a cash flow deficit and the cash request was not made monthly. The full amount of the grant was received. We will make this cash request more frequent in the future.

- E. Statement of condition: Two of forty selected disbursements in food service did not indicate that items received were counted. These disbursements contained multiple invoices.

Criteria of condition: Good internal control.

Cause of condition: Unknown.

Effect of condition: District could be paying for goods that were not received.

Recommendation: All items received should be counted and indicated on the invoice or packing slip.

Management's response: The District did not pay for the goods not received. These incoming food items were indeed verified by the food service employees but the sheet line items were not individually checked off. District will be more diligent on checking off line items on the invoice/packing slip.

- F. Statement of condition: Credit card charge did not have proper documentation.

Criteria of condition: Good internal control.

Cause of condition: Documents not obtained.

Effect of condition: Charge amounts could be paid that are not valid charges.

Recommendation: Proper supporting documentation should be obtained before charge is paid.

Management's response: Housing form was used to pay credit card charge. Correct amount was paid to hotel. Better invoices will be used.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2007**

UNCORRECTED PRECEDING AUDIT COMMENTS

- A. Statement of condition: All capital asset activity for the year has not been recorded in the District's Asset Depreciation Listing.

Criteria of condition: Asset Depreciation List should be a complete updated list of all assets owned by the District.

Cause of condition: No monthly reconciliations.

Effect of condition: Complete updated list of assets owned by the District is not available. Audit completion was delayed.

Recommendation: Responsibility for updating the list should be assigned and list should be updated monthly.

Management's response: Assets are tagged and input into MUNIS as acquired. Issue has been discussed and should not be repeated.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2007**

RESOLUTION OF RECOMMENDATIONS MADE DURING THE PRECEDING AUDIT

- A. Statement of condition: Audited numbers for the Excess Cost Requirement, Maintenance of Fiscal Effort, and Non-Supplanting Report are not being used.

Criteria of condition: Good internal control.

Cause of condition: No policy.

Effect of condition: There may be differences between audited and unaudited financial statements and those differences may be material to the report results.

Recommendation: The Excess Cost Requirement, Maintenance of Fiscal Effort, and Non-Supplanting Report should be based on audited financial statements.

Management's response: We did not have audited statements at the time the excess cost reports were due and had to proceed to meet the deadline. Difference are typically immaterial.

- B. Statement of condition: The May 2006 federal program cash request was not made.

Criteria of condition: Good cash flow.

Cause of condition: Unknown.

Effect of condition: Decreases cash flow for the District. Federal expenses must temporarily be paid with local funds.

Recommendation: We recommend that all federal reimbursements due the District at month end be applied for reimbursement.

Management's response: This was for one month only. District was not in a cash flow problem.

- C. Statement of condition: In reviewing the construction fund records, we noted that one invoice to Alliance Corporation for \$348,172 dated October 6, 2005 was paid twice and was not caught by the District's internal controls or the project manager.

Criteria of condition: Good internal control.

Cause of condition: No reconciliation of project billings to accounting records.

Effect of condition: The District could have overpaid the project manager for work performed on the Muhlenberg South Elementary School project.

Recommendation: We recommend that construction project billings be reconciled to the accounting records upon receipt of the progress billing.

Management's response: Overpayment was deducted from contractor's pay application. This invoice was billed twice. Billings are reconciled typically on a quarterly basis. Contractor has a large retainage as well that would cover possible problems.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2007**

RESOLUTION OF RECOMMENDATIONS MADE DURING THE PRECEDING AUDIT (continued)

- D. Statement of condition: All capital asset activity for the year has not been recorded in the District's Asset Depreciation Listing.

Criteria of condition: Asset Depreciation List should be a complete updated list of all assets owned by the District.

Cause of condition: No personnel assigned responsibility for Food Service assets.

Effect of condition: Complete updated list of assets owned by the District is not available. Audit completion was delayed.

Recommendation: Responsibility for updating the list should be assigned and list should be updated monthly.

Management's response: Food service list was available but not input in fixed assets. Items are now in MUNIS and a person has been assigned these duties.

- E. Statement of condition: An inventory of the District's assets was completed during the fiscal year, however, it was not reconciled to the accounting records at year end.

Criteria of condition: Good internal control.

Cause of condition: Vendor did not reconcile.

Effect of condition: The District's accounting records do not agree with what the District actually has on site.

Recommendation: Physical inventories of assets should always be reconciled to the accounting records in a timely manner.

Management's response: District was waiting on vendor recap for the reconciliation. Overall differences were immaterial.

- F. Statement of condition: Fixed assets are not reconciled monthly to the accounting records resulting in additional audit time and a delay in the filing of the audit.

Criteria of condition: Good internal control.

Cause of condition: Asset reconciliation not considered a priority.

Effect of condition: The District's accounting records do not agree with the Asset Depreciation List.

Recommendation: Physical inventories of assets should always be reconciled to the accounting records in a timely manner.

Management's response: District was waiting on vendor recap, preventing a complete reconciliation. The complete physical inventory was included in this year's audit.

**MUHLENBERG COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (continued)
FOR THE YEAR ENDED JUNE 30, 2007**

- G. Statement of condition: Retainage on construction contracts was reduced from 10% to 1% without board approval.

Criteria of condition: Good fiscal management.

Cause of condition: Engineer recommendation.

Effect of condition: The District's bargaining position in case of problems is greatly reduced.

Recommendation: Any reduction in retainage should be approved by the board.

Management's response: Board did approve this reduction from 10% to 1%. However, the Board minutes were silent.

- H. Criteria of condition: The ultimate responsibility of bidding rests with the District.

Statement of condition: Contractor bid records not kept on site.

Cause of condition: Third party controls bid files.

Effect of condition: Contractor bids are not monitored by the District.

Recommendation: Copies of bid files should be maintained by the District and monitored.

Management's response: We are now maintaining copies of bid files.

- I. Criteria of condition: Asset general ledger accounts should agree to fixed asset subsidiary ledger.

Statement of condition: The asset general ledger accounts were not reconciled to the fixed asset subsidiary ledger during the year.

Cause of condition: Management unaware of performance of reconciliation.

Effect of condition: General ledger does not agree with subsidiary detail.

Recommendation: General Ledger should be reconciled to the fixed asset subsidiary ledger at least monthly.

Management's response: This was a new condition created by GASB 34. Management is following auditor's recommendation.